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C O N F I D E N T I A L KINGSTON 001592

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STATE FOR WHA/CAR (NICHOLS, BUDDEN), WHA/EPSC (CORNEILLE),
EB/ESC/IEC/EPC (MCMANUS)

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TAGS: [EAID](#) [ECON](#) [EPET](#) [PGOV](#) [PREL](#) [JM](#) [VE](#)

SUBJECT: VENEZUELA/JAMAICA: USD 563 MILLION ASSISTANCE

REF: A. 05 KINGSTON 2661

[1](#)B. KINGSTON 1342

Classified By: Ambassador Brenda Johnson, reasons 1.4 (B) and (D)

Summary

[1](#)1. (SBU) On August 14, Venezuelan President Hugo Chavez, accompanied by Foreign Minister Nicolas Maduro and Energy and Petroleum Minister Raphael Ramirez, made a one-day stop in Jamaica during which he signed agreements with the GOJ totaling USD 563.3 million. Of that figure, USD 290 million purchased a 49 percent equity position in the GOJ-owned PetroJam refinery, which has serious implications for the security of Jamaica's energy supply. In addition, GOJ announced a USD 260 million soft loan for the construction of a highway from Spanish Town (near Kingston) to Ocho Rios, as well as three smaller projects totaling USD 13.3 million which will assist construction of a sports complex, a civic center, and low-income housing.

[1](#)2. (C) The Opposition Jamaica Labor Party (JLP) publicly and privately expressed concern over Jamaica's growing relationship with Venezuela. In a conversation with Poloff on August 15, JLP General Secretary Karl Samuda (protect) stated that he is fearful that Chavez will "meddle in Jamaica's domestic affairs." As expected, GOJ contacts have declined to offer any information regarding the visit. Prime Minister Portia Simpson Miller and members of her government received Chavez and his delegation in Montego Bay rather than in Kingston.

Venezuelan Assistance for Jamaica

[1](#)3. (SBU) On August 14, Venezuelan President Hugo Chavez, accompanied by Foreign Minister Nicolas Maduro and Energy and Petroleum Minister Raphael Ramirez, made a one-day stop in Jamaica during which he signed agreements with the GOJ totaling USD 563.3 million. Of that figure, USD 290 million purchased a 49 percent equity position in the GOJ-owned PetroJam refinery, USD 260 million was a soft loan for the construction of a highway from Spanish Town (near Kingston)

to Ocho Rios, and three smaller construction projects totaled USD 13.3 million.

Energy Background

¶4. (U) Jamaica, with no domestic sources of petroleum, is entirely dependent upon foreign suppliers. At the same time, the country has one of the highest energy intensity rates in Latin America and the Caribbean (due in part to high usage in the bauxite/alumina sector), and since the mid-1980s has seen a doubling of per capita consumption, from 5.6 boe to 10.31 boe. When this rising consumption is combined with ever-increasing prices, Jamaica has reached a point where two-thirds of every dollar earned on merchandise exports goes to pay the country's energy bill.

¶5. (U) Jamaica has been refining crude oil since 1964 at the Kingston Harbor facility. In 1982, the Government-owned Petroleum Corporation of Jamaica acquired the refinery from Esso Standard Oil. It is a hydroskimming refinery with a current capacity to refine 36,000 bpd, which manufactures Liquid Petroleum Gas (LPG), unleaded gasoline, turbo fuel, kerosene, diesel oil, heavy fuel oil, asphalt, and light and heavy naphtha.

¶6. (U) Jamaica currently imports approximately 26 million barrels of petroleum per year (Note: 2004 is the most recent year for which reliable statistics are available. End note). Of this, approximately 5.5 million barrels were crude oil, sourced primarily from Mexico, Venezuela and Ecuador. The remaining 20.5 million barrels were refined products, sourced largely from Trinidad and Tobago, but with significant levels from Venezuela.

¶7. (U) Under the PetroCaribe bilateral, Jamaica is entitled to a quota of 21,000 bpd under concessionary financing terms. Where the per barrel price is USD 40 or greater, 60 percent of the cost must be paid within 90 days (attracting two percent interest for the 60-90 day period). The remaining 40 percent attracts interest at one percent and is repayable within 25 years. The agreement was signed on August 23, ¶2005. The Ministry of Industry, Technology, Energy and Commerce (MITEC) estimate that at a price of USD 50 per barrel over a 12-month period, this will give a soft loan benefit to Jamaica of USD 176 million.

PDVSA to Control 49 Percent of PetroJam

¶8. (SBU) Venezuela's purchase of a 49 percent stake in the PetroJam refinery has significant implications for the Jamaican energy sector. Although Mexico has historically been the main supplier of crude oil to Jamaica, this obscures increasing levels of Venezuelan supply. In 2003, Jamaica sourced 1.1 million barrels from Venezuela. In 2004, that figure jumped 65 percent to 1.67 million barrels. While that increase came primarily at the expense of Ecuadorian crude, Mexico's supply remained static, and it is likely that Venezuelan imports will outstrip Mexico's for 2005 and beyond.

Upgrade: Technical Aspects

¶9. (C) The upgrade of the Kingston Harbor refinery will only exacerbate this trend. Currently, PetroJam primarily imports three types of crude oil from Venezuela: the medium grades Leona and Lago Treco, as well as the lighter Mesa. In addition to increasing the capacity of the facility to 50,000 bpd, the current engineering plans, developed by SNC Lavalin of Canada, call for the addition of a catalytic reforming unit, vacuum tower, visbreaker unit, and desulphurization facilities. According to Winston Watson (protect), Managing Director of the PetroJam refinery, this will allow the efficient processing of heavier crudes such as Merey and

Boscan produced by Venezuela.

¶10. (C) Currently, construction for the upgrade is projected to begin in the first quarter of 2007 (designs are expected to be completed and approved by February). While still accepting tender offers, the front runners appear to be SNC Lavalin and Foster Wheeler of New Jersey.

Amendment to PetroCaribe Accord

¶11. (U) Additionally, Chavez and Simpson Miller added an amendment protocol to the PetroCaribe Bilateral which will increase the quota that Jamaica received from 21,000 bpd to 23,500 bpd. This increase reflects 2,500 bpd of aviation fuel supplied to Air Jamaica. This agreement is effective from June 2006 to June 2007.

A Long-Term Policy?

¶12. (C) According to a GOJ Green Paper entitled "The Jamaica Energy Policy 2006-2020", concern about ensuring the security of the energy supply favors strengthening government-to-government energy agreements. Therefore, the paper argues: "The Government's foreign trade policy will seek to strengthen bilateral relationships with energy supplying countries(especially Venezuela(" Repeated conversations that econoff has had with high level contacts in MITEC has revealed that the GOJ considers it inconceivable that Venezuela would "betray" them. They also argue that "it would not make business sense" to willfully disrupt the petroleum flows to Jamaica (ref. A).

The Continuing Saga of Highway 2000

¶13. (U) A USD 260 million soft loan for the construction of a leg of "Highway 2000" between Spanish Town and Ocho Rios has a ring of the familiar. In 1999, when former Prime Minister P.J. Patterson announced the original road construction project, he announced that it would serve as a "catalyst for growth and development." Once the first leg was completed in 2002, it was a platform for re-election under the slogan "Don't Stop the Progress."

¶14. (U) The highway was originally intended to connect Kingston and Montego Bay. In a joint venture with the French firm Bouygues Travaux Publiques, the GOJ estimated that construction would cost USD 850 million utilized over a five-year period. Funding was sourced through equity and loans from Bouygues, as well as bonds issued by the National Road Operating and Construction Company (NROCC). However, Bouygues and ENROCC became embroiled in a dispute over the financing arrangements. Venezuela's loan offers a low-cost alternative source of funds in the face of Bouygues' reluctance to commit more resources to the project.

¶15. (C) Under the deal with Venezuela, GOJ will receive USD 130 million immediately to begin work on the project, with additional sums of USD 65 million in March 2007, and USD 65 million in May 2007. Contacts at both NROCC and at the Ministry of Finance and Planning, however, indicated that these negotiations were "as premature as they come", and that repayment terms and details had yet to be agreed upon.

Political Considerations

¶16. (C) The Jamaica Labor Party (JLP) has publicly voiced concern over the GOJ entering into these agreements with GOV and has insisted on knowing what strings are attached. Poloff spoke to Karl Samuda, JLP General Secretary, who stated that even though PetroCaribe is beneficial economically, the JLP is concerned about Jamaica forming such

a close relationship with Chavez. Samuda said that the JLP does not want the GOV on the UNSC because Chavez is an obstructionist and he may try to meddle in Jamaica,s domestic affairs, especially considering his alignment with Bolivia and his attempt to destabilize Peru. Chavez, Samuda stated, is bad for Jamaica,s development and may take them back to the time of the Cold War. Samuda concluded by stating that "Chavez is a flipping disaster".

¶17. (C) Given the JLP,s concern that Chavez may meddle in domestic politics (ref. B), it is noteworthy that former Prime Minister P.J. Patterson, is reported in the media to have had a "private meeting" with Chavez.

¶18. (C) On August 14, DCM called Delano Franklyn, Minister of State at the Ministry of Foreign Affairs and Foreign Trade, and asked if Franklyn could share the agenda or any details of the Chavez visit. Franklyn responded that "he was not in a position to do so" at that time, echoing sentiments that embosffs have received from a range of GOJ contacts.

On the Margins: Additional Assistance

¶19. (U) Smaller agreements initialed during meetings between senior representatives form both governments include the construction of the final phase of a sports complex in Montego Bay (USD 9.3 million), the continuing construction of a civic center in Port Maria (USD 2.3 million), and the provision of a line of credit of USD 2 million for the Jamaica Mortgage Bank, to help finance low-income housing.

Comment

¶20. (C) These announcements come at an opportune time for a Simpson Miller administration that has been reeling from scandals in the cement sector, corruption allegations aimed at high-ranking People's National Party officials, and a public perception that her leadership has been ineffective. While it will offer a temporary respite, there is some reason to take the figures provided with a pinch of salt. The highway loan has not yet been completed, and terms could bring the deal to a halt.

¶21. (C) The PetroJam upgrade offers greater cause for concern. Although a minority shareholder at 49 percent, the deal will place Jamaica's energy supply future) at least partially - at the whims of the GOV's foreign policy imperatives. At the very least, it would not be surprising if the actual funds were transmitted after the UNSC vote.

¶22. (C) Chavez's "private" meeting with P.J. Patterson could have taken place because they are good old friends; however, some speculate that Patterson desires to play a role in national politics despite that he no longer holds office. Patterson may attempt to continue his involvement through his free consulting services to the GOJ through his consulting firm Heis Consult (sic). Post will continue to track this issue and press Embassy contacts for more information. End comment.

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